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Message Text

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ACTION EUR-12

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C O N F I D E N T I A L LISBON 2189

DEPT. PASS TREASURY FOR SYVRUD

E.O. 11652: GDS
TAGS: EFIN, ECON, PO
SUBJECT: PORTUGUESE BALANCE OF PAYMENTS PROSPECTS

REF: A) LISBON 2110 B) LISBON 2188

1. FOLLOWING IS EMBASSY'S TENTATIVE ESTIMATE OF PORTUGAL'S 1977 BALANCE OF PAYMENTS, AND PROJECTION FOR 1978 AND 1979, IN CURRENT DOLLARS. PREPARATION OF THESE DATA IS BASED ON THE BAREST MINIMUM OF HARD FIGURES. EVEN THE BANK OF PORTUGAL IS STILL PREPARING ITS ESTIMATE FOR 1977. THE FOLLOWING EMBASSY ESTIMATE AND PROJECTIONS WILL, THEREFORE, UNDOUBTEDLY UNDERGO SUBSTANTIAL CHANGES AS FIRM RESUTLS FOR 1977 BECOME AVAILABLE AND AS THE GOP DEFINES ITS FUTURE POLICIES. DESPITE ITS EVIDENT INADEQUACIES, THE FOLLOWING TABLE WILL HOPEFULLY HELP PROVIDE A SOMEWHAT CLEARER IMPRESSION OF PORTUGAL'S EXTERNAL PROSPECTS AND DIFFICULTIES.

2. THE EMBASSY PROJECTIONS ARE BASED ON THE FOLLOWING ASSUMP-
TIONS:
A) AN EXPANSION OF WORLD TRADE OF ONLY 3-4 PERCENT IN 1978
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AND 1979;
B) AN AVERAGE ANNUAL INFLATION RATE OF 5 PERCENT IN PORTUGAL'S MAJOR TRADING PARTNERS;
C) A PORTUGUESE GNP EXPANSION OF NO MORE THAN 3 PERCENT IN 1978 AND 4 PERCENT IN 1979;
D) A GRADUAL ESCUDO DEPRECIATION OF AT LEAST 20 PERCENT THIS YEAR AND CONTINUED DEPRECIATION IN 1977;

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E) A RELATIVELY TIGHT CREDIT POLICY, BUT AN INTEREST
RATE WHICH IS BELOW THE RATE OF DOMESTIC PRICE INCREASES;
F) A MAJOR SUCCESSFUL GOP EFFORT TO ATTRACT FOREIGN TOURISTS;
G) GOP ADMINISTRATIVE AND PRICE MECHANISMS TO CONSTRAIN
AGRICULTURAL IMPORTS DESPITE RELATIVELY POOR DOMESTIC
AGRICULTURAL PRODUCTION IN 1978;
H) A MODERATE INCREASE IN PRIVATE FOREIGN INVEST-
MENT AND MEDIUM TERM FINANCING, BUT CAPITAL FLIGHT
CONTINUING AT A SUBSTANTIAL LEVEL;
I) A SLOWER RATE OF DECLINE IN PERSONAL INCOME THAT
DURING 1977; AND, PERHAPS MOST IMPORTANT,
J) CONCLUSION OF A SECOND TRANCHE AGREEMENT WITH THE IMF.

3. EMBASSY OBSERVATIONS ON THESE PROJECTIONS CONTAINED IN REF B.

PORTUGAL'S BALANCE OF PAYMENTS
(MILLIONS OF DOLLARS)

	1977	1978	1979
I. CURRENT ACCOUNT BALANCE	-1,380	-1,310	-1,330
A. TRADE BALANCE	-2,470	-2,450	-2,570
1. IMPORTS, F.O.B.	-4,500	-4,680	-5,000
B. SERVICES, ETC.	-45	-20	40
1. TOURSIM	280	415	545
2. TRANSPORTATION	-115	-110	-120
3. INVESTMENT INCOME	-170	-275	-325
4. OTHER	-40	-50	-60
C. PRIVATE TRANSFERS			

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(INCLUDING EMIGRANT REMITTANCES)	-1,135	1,160	1,200
II. CAPITAL ACCOUNT	635	-722	358
A. SHORT TERM, ERRORS & OMISSIONS	670	200	200
B. MEDIUM & LONG TERM CAPITAL MOVEMENTS	-35	-922	158
1. AMORTIZATION	-492	-1,617	-687
2. CREDITS & GRANTS	391.3	595	645
A. WORLD BANK	0.3	10	40
B. EFTA	10	25	30
C. EUROPEAN INVESTMENT BANK	70	150	125
D. OTHER MULTILATERAL	5	5	5
E. U.S. BILATERAL (PL-480, CCC, AID)	191	185	170
F. OTHER BILATERAL	15	20	25
G. PRIVATE FINANCIAL MARKET	100	200	250
3. INVESTMENTS	65.7	100	200
III. SURPLUS, DEFICIT (1)	-745	-2,032	-972
IV. PROJECTED OR KNOWN FINANCING	745	1,954	-
1. GOLD SALES	450	250	-
2. LOAN ROLL-OVER	-	1,017	-

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3. IMF BORROWING	102	50	-
4. EUROPEAN CENTRAL BANK LOAN (1976)	65	-	-
5. COORDINATED LOAN PROGRAM	65	637	-
6. EUROPEAN CENTRAL BANK LOANS (1977)	55	-	-
7. BIS 1976 LOAN	85	-	-
8. BIS 1977 LOAN	75	-	-
9. INCREASES N BANK OF PORTUGAL LIQUID RESERVES	-152	-	-
V. FINANCING GAP	-	78	972

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